

Message Text

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ACTION ARA-14

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TAGS: EFIN EGEN PE

SUBJ: RECENT PERUVIAN ECONOMIC DEVELOPMENTS

REF: J8.- 6288

1. SUMMARY. WEEK ENDING JULY 21 WAS MARKED BY CONTINUING NEGOTIATIONS FOR THE IMF STANDBY LOAN; SIGNING OF AGREEMENT POSTPONING \$185 MILLION OF DEBT REPAYMENTS DUE IN 1978 UNTIL JANUARY 1979; AND ISSUANCE OF A DECREE LAW AUTHORIZING THE CENTRAL BANK TO RAISE INTEREST RATES TO 31.5 0/0 BEGINNING AUGUST 1. IN A SPEECH BEFORE A PERUVIAN BUSINESS ORGANIZATION FINANCE MINISTER SILVA RUETE ANNOUNCED THAT IN THE FINAL QUARTER OF 1978 THE GOVERNMENT WILL BEGIN TO RESCHEDULE ALL EXTERNAL PUBLIC DEBT. THE SPREAD BETWEEN THE OFFICIAL EXCHANGE RATE AND THE CERTIFICATE RATE NARROWED FURTHER AS THE CERTIFICATE MARKET WEAKENED.

2. IMF TALKS. TALKS WITH THE FUND APPEAR TO BE IN THE FINAL NEGOTIATING PHASE WITH THE IMF TEAM SCHEDULED TO SEE THE FINANCE MINISTER THE END OF THE WEEK AND POSSIBLY TO LEAVE LIMA DURING THE WEEKEND WITH A PROPOSED AGREEMENT IN HAND. ON JULY 19 FINANCE MINISTER SILVA RUETE ANNOUNCED PUBLICLY
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THAT THE GOVERNMENT WAS CONCLUDING THE RENEGOTIATION OF THE STANDBY "WITHOUT YIELDING TO ANY TYPE" OF PRESSURE FROM THE FUND. PRIVATELY, HOWEVER, GOVERNMENT SOURCES HAVE BEEN TIGHT-LIPPED ABOUT THE SPECIFICS OF AN AGREEMENT AND TOWARD WEEK'S END THERE ARE REPORTS OF CONTINUED VERY TOUGH NEGOTIATIONS IN THE KEY AREAS OF THE GOVERNMENT DEFICIT, GROWTH OF MONEY SUPPLY AND THE EXCHANGE RATE. ACCORDING TO A CENTRAL

BANK SOURCE THREE ISSUES WHICH REMAIN UNRESOLVED ARE THE NEED FOR AN ADDITIONAL INTEREST RATE INCREASE (BEYOND THAT AUTHORIZED THIS WEEK) BEFORE THE END OF OCTOBER, THE EXCHANGE RATE BY THE END OF THE YEAR (WITH THE IMF SUPPOSEDLY ASKING FOR A RANGE OF 185-195/\$), AND THE EXACT TIMING AND TERMS FOR TRANCHE RELEASES FROM THE STANDBY. A FINANCE MINISTRY SOURCE CLAIMS THAT THE FUND HAS ACCEPTED A TARGET FOR THE 1978 GOVERNMENT DEFICIT OF OVER 70 BILLION SOLES.

3. DEBT POSTPONEMENT. ON 18 JULY IN NEW YORK, FERNANDO REUS, DIRECTOR OF PUBLIC CREDIT IN THE FINANCE MINISTRY, SIGNED ON BEHALF OF GOP, AGREEMENT WITH 170 PRIVATE BANKS (LED BY MANUFACTURERS TO POSTPONE UNTIL JANUARY 3, 1979 \$185 MILLION IN DEBT REPAYMENTS COMING DUE DURING THE REST OF 1978. ON HIS RETURN FROM NEW YORK REUS SAID THAT THE ROLLOVER WILL FACILITATE ACCESS OF THE COUNTRY TO FINANCIAL MARKETS, IMPROVE THE LIQUIDITY SITUATION AND HELP PRIVATE SECTOR PRODUCTION. HE ALSO STATED THAT THE AGREEMENT DEMONSTRATED THE INTERNATIONAL BANKING COMMUNITY'S CONFIDENCE IN THE PERUVIAN ECONOMY.

4. INTEREST RATES. IN DECREE LAW NO. 21504 ANNOUNCED 18 JULY THE CENTRAL BANK WAS AUTHORIZED TO RAISE PRIME INTEREST RATE TO 31.5 PERCENT AS OF AUGUST 1. THE REASON GIVEN FOR THE INTEREST RATE HIKE WAS THE PROMOTION OF INTERNAL SAVINGS. A SCHEDULE OF NEW INTEREST RATES (APPLYING TO DIFFERENT FINANCIAL INSTITUTIONS, TERMS OF LOANS AND DEPOSITS) REMAINS TO LIMITED OFFICIAL USE

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BE FORMULATED BY THE CENTRAL BANK.

5. SILVA RUETE'S SPEECH. IN A SPEECH BEFORE A LARGE BUSINESS GROUP ON 19 JULY FINANCE MINISTER SILVA RUETE ANNOUNCED THAT THE GOVERNMENT WOULD START TO RENEGOTIATE ALL PUBLIC EXTERNAL DEBT THE BEGINNING OF THE FINAL QUARTER OF 1978. HE REPEATED THE THEMES OF HIS JUNE 14 SPEECH REGARDING THE CAUSES OF PERU'S ECONOMIC DETERIORATION AND JUSTIFIED THE RISE IN INTEREST RATES. HE ALSO OUTLINED SOME OF THE GOP'S POLICIES FOR ECONOMIC RECOVERY INCLUDING GOVERNMENT SPENDING CUTS, REFORMS IN THE PUBLIC SECTOR AND FORMULATION OF INVESTMENT PRIORITIES.

6. EXCHANGE RATE. IT IS BECOMING MORE DIFFICULT TO MAKE LARGE SALES IN THE CERTIFICATE MARKET PRIMARILY BECAUSE OF THE LACK OF A SUFFICIENT AMOUNT OF SOLES. THE RATE FOR CERTIFICATES AT WEEK'S END WAS ABOUT 182/\$. THE OFFICIAL EXCHANGE RATE (SELLING RATE) FOR SOLES FROSE FROM 156.84/\$ TO 159.29/\$ FROM JULY 10 TO JULY 20 AS CENTRAL BANK CONTINUED ITS POLICY OF MINI-DEVALUATION.

DECON 7/21/79. SHLAUDEMAN

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